

Welcome to the *IFRS for SMEs* Update

The IASB's *IFRS for SMEs* Update is a staff summary of news relating to the International Financial Reporting Standard for Small and Medium-sized Entities (*IFRS for SMEs*). All issues of the *IFRS for SMEs* Update are available in both HTML and PDF format on the IASB's [website](#). To subscribe use the link on the right.

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Contact us

If you have news about IFRS for SMEs activities in your jurisdiction please contact Paul Pacter and Michelle Fisher (details below)

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SME Implementation Group publishes five more draft Q&As

On 28 September 2011, the SME Implementation Group (SMEIG) published for public comment five more proposed questions and answers (Q&As) on the *IFRS for SMEs*. The SMEIG is responsible for assisting the IASB on matters relating to the implementation of the *IFRS for SMEs*. The new draft Q&As cover the following topics:

- Application of the *IFRS for SMEs* for financial periods ending before the *IFRS for SMEs* was issued
- Interpretation of 'undue cost or effort' and 'impracticable'
- Jurisdiction requires fallback to full IFRSs
- Departure from a principle in the *IFRS for SMEs*
- Prescription of the format of financial statements by local regulation

The draft Q&As are open for public comment until 30 November 2011 and can be accessed at <http://go.ifrs.org/IFRS+for+SMEs+QandA>. The Q&As (excluding their Basis for Conclusions due

to space requirements) are set out below for your reference.

IFRS for SMEs General, Issue 1

Application of the **IFRS for SMEs** for financial periods ending before the **IFRS for SMEs** was issued

The issue: The IASB issued the *IFRS for SMEs* on 9 July 2009 and did not specify a date from which the *IFRS for SMEs* is effective. Can the *IFRS for SMEs* be used for periods ending before 9 July 2009?

The proposed response: Yes—the *IFRS for SMEs* can be used for periods ending before 9 July 2009 when preparing:

- financial statements for the first time for a particular reporting period; and
- a new set of financial statements for a period in which, previously, the financial statements were presented under a different accounting framework.

However, the decision on whether specified entities are required or permitted to use the *IFRS for SMEs* rests with the legislative and regulatory authorities and standard-setters in individual jurisdictions. Therefore, an entity will need to ensure it is permitted to prepare the financial statements in accordance with the *IFRS for SMEs* in its particular jurisdiction for that reporting period.

Where to download the draft Q&A: <http://www.ifrs.org/IFRS+for+SMEs/Draft.htm>

IFRS for SMEs General, Issue 2

Interpretation of 'undue cost or effort' and 'impracticable'

The issue: Several sections of the *IFRS for SMEs* contain 'undue cost or effort' and 'impracticable' exemptions in relation to certain requirements. How should these be interpreted?

The proposed response: 'Impracticable' is defined in the *IFRS for SMEs* as follows: 'Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so'. 'Impracticable', therefore, generally only covers situations where information is unavailable, for example where data, that has not been collected at the time of an event, is impossible to create at a later point, rather than situations where the data could be obtained but it would be expensive or time consuming to do so.

'Undue cost or effort' is deliberately not defined in the *IFRS for SMEs* as it will depend on the SME's specific circumstances and management's professional judgement in assessing the costs and benefits. That assessment should include a consideration of how the economic decisions of the users of the financial statements could be affected by the availability of the information. Applying a requirement would result in 'undue cost or effort' because of either excessive cost (eg through valuers' fees) or excessive endeavors by employees in comparison to the benefits that the users of the SME's financial statements would receive from having the information. Assessing whether a requirement will result in 'undue cost or effort' should be based on information available at the time of the transaction or event about the costs and benefits of the requirement.

Where 'undue cost or effort' is used together with 'impracticable', this should be applied in the same way as 'undue cost or effort' on its own. 'Undue cost or effort' is used either instead of, or together with, 'impracticable' for certain requirements in the *IFRS for SMEs* in order to include cost or burden as factors to take into account when deciding whether to obtain or determine the information.

To include an exemption for impracticability alone would mean that an SME would be required to follow the requirements if it is possible to obtain or determine the information, regardless of the cost or effort required. For example, an SME would be expected to engage a valuer, actuary or other professional to make a particular measurement, regardless of the cost, provided the valuer expects to

be able to develop a reliable valuation of the asset.

Where to download the draft Q&A: <http://www.ifrs.org/IFRS+for+SMEs/Draft.htm>

IFRS for SMEs Section 3, Issue 1

Jurisdiction requires fallback to full IFRSs

The issue: A jurisdiction permits all entities meeting the definition of an SME to follow the *IFRS for SMEs*. However the jurisdiction adds a requirement that where the recognition and measurement requirements for a particular transaction, other event or condition are not specifically covered by the *IFRS for SMEs* but they are covered in full IFRSs, an SME must follow the recognition and measurement requirements in full IFRSs for that transaction, event or condition. May SMEs in that jurisdiction state compliance with the *IFRS for SMEs*?

The proposed response: Yes—in such situations SMEs can state compliance with the *IFRS for SMEs*. In the absence of specific requirements for transactions, events or conditions, paragraph 10.4 of the *IFRS for SMEs* requires management to use its judgement in developing an accounting policy that is reliable and results in information that is relevant to the economic decision-making needs of users. Paragraph 10.5 establishes the following hierarchy for an entity to follow in deciding on the appropriate accounting policy:

- a. the requirements and guidance in the *IFRS for SMEs* dealing with similar and related issues; and
- b. the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 *Concepts and Pervasive Principles*.

Paragraph 10.6 notes that in making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in full IFRSs dealing with similar and related issues.

When following paragraphs 10.4 and 10.5, the full IFRS principles may be used in the absence of specific guidance in the *IFRS for SMEs*. Since paragraph 10.4 and Section 2 are based on full IFRSs, using requirements in full IFRSs will result in an appropriate accounting treatment.

This scenario is different from allowing a free choice to follow full IFRS requirements when specific requirements exist in the *IFRS for SMEs* for a transaction, other event or condition. Where there are such specific requirements in the *IFRS for SMEs* those must be applied even if they differ from full IFRSs. If the entity follows a requirement in full IFRSs for that transaction, other event or condition for which the *IFRS for SMEs* contains different guidance, it will not be able to state compliance with the *IFRS for SMEs*. Paragraph BC68 identifies the twelve main areas where the *IFRS for SMEs* would mandate a recognition or measurement principle that is different from full IFRSs.

Where to download the draft Q&A: <http://www.ifrs.org/IFRS+for+SMEs/Draft.htm>

IFRS for SMEs Section 3, Issue 2

Departure from a principle in the *IFRS for SMEs*

The issue: An entity chooses to use a principle that is not allowed under the *IFRS for SMEs* (eg capitalising borrowing costs or revaluing property, plant and equipment), but otherwise complies with the *IFRS for SMEs* in full. Can its financial statements be described in any way as complying with the *IFRS for SMEs*?

Such a situation arises if a subsidiary of a group applying full IFRSs applies the *IFRS for SMEs* in its own financial statements, but uses one or more full IFRS principles that are used by the group where the *IFRS for SMEs* requires a different principle. It also arises in a jurisdiction where the authorities adopt the *IFRS for SMEs* as their local SME standard, but modify one or more of the sections.

The proposed response: Paragraph 3.3 notes that 'Financial statements shall not be described as complying with the IFRS for SMEs unless they comply with all the requirements of this IFRS'. Therefore if a company uses the *IFRS for SMEs* except for one or more accounting principles not in accordance with the *IFRS for SMEs*, and the departure does not meet the strict and extremely rare condition in paragraph 3.4, it may not state compliance with the *IFRS for SMEs*.

Where authorities in a particular jurisdiction adopt the *IFRS for SMEs* as their local SME standard, but modify certain sections, an entity complying with the local SME standard will not be able to state compliance with the *IFRS for SMEs* unless that modification does not affect the entity (ie the financial statements would not be materially different if they were prepared in conformity with the *IFRS for SMEs*). An entity complying with the local SME standard is not prohibited from disclosing that its financial statements are 'in conformity with the local standard which results in the following mandatory departures from the *IFRS for SMEs* [state departure(s)]'. Alternatively, the entity could disclose the local standard 'is the same as the *IFRS for SMEs* except for [state modification(s)]'.

Where to download the draft Q&A: <http://www.ifrs.org/IFRS+for+SMEs/Draft.htm>

IFRS for SMEs Section 3, Issue 3

Prescription of the format of financial statements by local regulation

The issue: Local law or regulation sometimes prescribes format requirements for the financial statements of SMEs. For example, it may require a particular order of items in the financial statements (eg in order of ascending or descending liquidity) or it may specify the terminology to be used (eg it may require that the statement of financial position be called the balance sheet). What is the impact of such local requirements on an entity's ability to state compliance with the *IFRS for SMEs*?

The proposed response: In general, the *IFRS for SMEs* does not prescribe the format, the order of items to be presented or the terminology to be used in financial statements. It does, however, require certain minimum disclosures on the face of the financial statements (see, for example, paragraph 4.2) and it does have a few other basic formatting requirements (such as paragraph 4.4 regarding the current/non-current distinction). Therefore, provided the format prescribed by local law and regulation meets the minimal basic formatting requirements in the *IFRS for SMEs*, the SME will be able to state compliance with the *IFRS for SMEs* under paragraph 3.3.

Where to download the draft Q&A: <http://www.ifrs.org/IFRS+for+SMEs/Draft.htm>

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Q&As about the IFRS for SMEs: Status report

The table below provides a status report on the Q&As considered by the SMEIG to date. You will find links to each final Q&A and draft Q&A here:

<http://www.ifrs.org/IFRS+for+SMEs/Q+and+A+IFRS+for+SMEs.htm>

The [Terms of Reference](#) of the SMEIG as approved by the trustees of the IFRS Foundation establish criteria for Q&As (see paragraphs 15-17) and due process steps for issuing a Q&A (see paragraphs 18-36), including review of draft Q&As and final Q&As by the IASB before they are issued.

Q&A number / reference	Topic	Status
Final Q&As issued		
Q&A 2011/01	Use of <i>IFRS for SMEs</i> in a parent's separate financial statements	23 June 2011 final Q&A published

Draft Q&As previously issued for public comment		
Section 1, Issue 2	Captive insurance subsidiaries	14 April 2011 draft Q&A published Comment period now closed Revised Q&A under consideration by SMEIG
Section 1, Issue 3	Interpretation of 'traded in a public market'	14 April 2011 draft Q&A published Comment period now closed Revised Q&A under consideration by SMEIG
Section 1, Issue 4	Investment funds with only a few participants	14 April 2011 draft Q&A published Comment period now closed Revised Q&A under consideration by SMEIG
Draft Q&As open for public comment		
General, Issue 1	Application of the <i>IFRS for SMEs</i> for financial periods ending before the <i>IFRS for SMEs</i> was issued	28 September 2011 draft Q&A published
General, Issue 2	Interpretation of 'undue cost or effort' and 'impracticable'	28 September 2011 draft Q&A published
Section 3, Issue 1	Jurisdiction requires fallback to full IFRSs	28 September 2011 draft Q&A published
Section 3, Issue 2	Departure from a principle in the <i>IFRS for SMEs</i>	28 September 2011 draft Q&A published
Section 3, Issue 3	Prescription of the format of financial statements by local regulation	28 September 2011 draft Q&A published

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IFRS for SMEs discussed at World Standard Setters meeting

On 15 and 16 September 2011, the IASB hosted the annual two-day meeting in London of accounting standard setters from around the world. One of the sessions at this World Standard Setters (WSS) meeting focused on 'Implementing the *IFRS for SMEs*'. In advance of the meeting, all of the jurisdictions participating in the WSS meeting were invited to respond to a simple questionnaire about the *IFRS for SMEs*. The questions were:

Has your jurisdiction adopted the ***IFRS for SMEs***?

If yes:

Is it available for use by all entities without public accountability, or only by some (but not all) entities without public accountability (and which ones)? Is it mandatory or optional? Did your jurisdiction make any modifications to the *IFRS for SMEs* (if yes, describe)?

What other alternatives do SMEs have instead of the *IFRS for SMEs*? Full IFRSs? Simplified national GAAP for SMEs? Other—please explain

If no:

Why have you not adopted (check all that apply)? Check boxes were included for:

- *IFRS for SMEs* is too difficult for most of our SMEs

- National law prescribes other GAAP for SMEs
- Standard setter has adopted national GAAP for SMEs
- SMEs prefer to prepare 'tax accounts' (financial reports comply with tax laws)
- *IFRS for SMEs* is under study
- Other reasons (please explain)

Thirty-seven jurisdictions responded to the questionnaire. At the WSS SME session, IASB member Paul Pacter, Chairman of the SME Implementation Group, presented an update on adoption and implementation of the *IFRS for SMEs*. His Microsoft PowerPoint® presentation included one slide for each of the 37 jurisdictions that has responded to the questionnaire. Representatives of those jurisdictions who were at the WSS SME session explained their jurisdiction's circumstances and experiences. A copy of the PowerPoint slides (in PDF format) may be downloaded here: <http://www.ifrs.org/IFRS+for+SMEs/Presentations.htm>.

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Should the IASB provide guidance on financial reporting by micro entities?

During the discussion of implementation of the *IFRS for SMEs* at the World Standard Setters meeting (see preceding story), participants discussed whether the IASB should develop some type of guidance on financial reporting by micro entities. Micro entities are tiny companies or other entities with, say, fewer than ten employees. Among the points made during the discussion were:

- Many jurisdictions currently require micro entities to prepare financial statements and, usually, submit them to a government agency or otherwise make them publicly available. Globally, millions of micro entities are required by law to prepare financial statements.
- Sometimes the requirement is clear that the micro financial statements are general purpose financial statements intended to present fairly (or give a true and fair view of) financial position, results of operations, and cash flows. In other cases, the requirement is not clear as to whether the intent is to produce general purpose financial statements.
- Some jurisdictions require audits of the financial statements of micros. Others do not.
- Micro entities in many jurisdictions feel that even the simplified requirements in the *IFRS for SMEs* are burdensome for them and not tailored to their needs and capabilities.
- A number of jurisdictions already have some sort of accounting standards for micros. In some cases, these standards are currently under review. Others have begun to develop standards for micros, usually with the *IFRS for SMEs* as the starting point. Several are considering whether and how to develop guidance on how micros should apply the *IFRS for SMEs*.
- Many of the participants in the SME discussion at the WSS meeting expressed concern about the likelihood of inconsistent (and potentially inferior quality) practices developing at the jurisdictional level.
- Every jurisdiction represented at the SME discussion at the WSS meeting felt that the IASB should take on an agenda project to develop special financial reporting guidance for micro entities. The nature of that guidance needs to be studied.
- Participants in the SME session thought that one approach that the IASB should consider is the idea of developing a simplified accounting standard that would be suitable for micros. This would be done by extracting from the *IFRS for SMEs* only those requirements that would clearly be necessary for most micro-sized entities, perhaps without modifying any of the principles for recognising and measuring assets, liabilities, income, and expenses, and possibly with a cross-reference to the *IFRS for SMEs* if a micro encounters one of the more complex transactions.

Mr Pacter noted that in July 2011 the IASB published a request for views on the Board's future agenda. The request for views may be downloaded [here](#).

The IASB is undertaking this three-yearly agenda consultation to gather views, from all those interested in financial reporting, on the strategic direction and overall balance of the Board's work plan, as well as on the priority of individual projects or agenda areas over the next three years (2012 to 2014). Mr Pacter

encouraged participants in the SME session at the WSS meeting to address, in their responses to the agenda consultation, whether the IASB's future agenda should include a project to develop some type of guidance on financial reporting by micro entities. Readers of this *IFRS for SMEs* Update newsletter are similarly encouraged to consider this potential project in developing their responses to the IASB's agenda consultation. Responses to the agenda consultation are due by 30 November 2011.

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IFRS for SMEs translations: Status report

Here is the current status of translations of the *IFRS for SMEs* approved by the IFRS Foundation. New translations are available in Albanian, Macedonian and Mongolian:

Completed. Albanian*, Arabic, Armenian*, Chinese (simplified)*, Czech*, French*, Italian*, Lithuanian, Macedonian*, Mongolian, Polish*, Portuguese*, Romanian*, Russian*, Spanish*, Turkish*

In process. Hebrew, Japanese, Kazakh, Khmer, Serbian, Ukrainian

Under discussion with the IFRS Foundation. Bosnian, Bulgarian

*Available for free download [here](#)

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New training module—Section 30 *Foreign Currency Translation*

The IFRS Foundation Education Initiative has now posted the English-language version of Module 30 *Foreign Currency Translation*. Module 30 covers how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

Ultimately, the *IFRS for SMEs* training material will include 35 stand-alone modules—one for each section of the *IFRS for SMEs*. You are free to print the training materials, distribute them in training programmes, and post them on your own website in accordance with IFRS Foundation copyright and terms of use. Twenty four other modules have already been posted. All of them are available here: <http://go.ifrs.org/smetraining>.

Each module includes:

- Introduction. An overview of the module, including learning objectives and an overview of the requirements that are the subject of that module.
- Requirements. The full text of the section of the *IFRS for SMEs* with added notes and worked examples. The notes and examples are designed to clarify and illustrate the requirements.
- Significant estimates and other judgements. A discussion of significant estimates and other judgements in accounting for transactions and events in accordance with that section of the *IFRS for SMEs*.
- Comparison with full IFRSs. A summary of the main differences between this section of the *IFRS for SMEs* and the corresponding full IFRS.
- Test your knowledge. A collection of multiple-choice questions (with answers) designed to test the learner's knowledge of the requirements.
- Apply your knowledge. Several case studies (with solutions) designed to develop the learner's ability to account for transactions and events in accordance with this section of the *IFRS for SMEs*.

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Additional module of Russian-language translation of training modules

The IFRS Foundation Education Initiative has posted Module 29 *Income Tax* of the Russian-language translation of its training material.

Twenty two Russian-language modules are now available for download from the IFRS Website (see <http://www.ifrs.org/IFRS+for+SMEs/RussianModules.htm>). The IFRS Foundation is grateful to the Eurasian Council of Certified Accountants and Auditors (ECCAA) for facilitating the translation of the training material with funding from the United States Agency for International Development (USAID).

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Recent "train the trainers" workshops

The IASB and IFRS Foundation are conducting workshops to "train the trainers" on the *IFRS for SMEs*. Each workshop participant is asked to replicate at least one similar training workshop in his or her home jurisdiction.

Dubai, United Arab Emirates. On 27-29 September 2011, a workshop was held in Dubai, which was jointly sponsored by Dubai SME (an agency of the Dubai Government) and the Arab Society of Certified Accountants (ASCA). This is the fifteenth such workshop that the IASB and IFRS Foundation have held. Nearly 140 people from small and medium-sized companies, accounting firms, and government agencies participated. They came from Abu Dhabi, Dubai, Jordan, Lebanon, Nepal, Palestine, Sharjah, Syria, and Yemen.

The English-language was spoken in the workshop and Arabic-language presentation material was provided. Instructors were Paul Pacter (IASB Member and Chairman of the SME Implementation Group) and Michael Wells (Director of the IFRS Foundation Education Initiative). The Arabic-language translations of the PowerPoint presentations and training modules are available for download from the IFRS Foundation website (see <http://www.ifrs.org/IFRS+for+SMEs/ArabicWorkshops.htm> and <http://www.ifrs.org/IFRS+for+SMEs/ArabicModules.htm>). The IFRS Foundation is grateful to the Arab Society of Certified Accountants (ASCA) Jordan for facilitating and funding the translation of the training material.

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Upcoming "train the trainers" workshops

Most workshops are of three day duration with eight contact hours per day. Upcoming workshops will be held in Sarajevo (Bosnia), Nairobi (Kenya), and St Michael (Barbados).

A few others are in the planning stage (see <http://www.ifrs.org/IFRS+for+SMEs/SME+Workshops.htm>):

Europe

Date: 18–20 October 2011

Location: Sarajevo, Bosnia

Instructors: Liam Coughlan, Senior Financial Management Specialist, and Pascal Frerejacque, Senior Operations Officer (Centre for Financial Reporting Reform, Europe and Central Asia Region, The World Bank) and Michael Wells (Director, IFRS Education Initiative)

Language: English spoken

Sponsoring organisation: The World Bank Centre for Financial Reporting Reform (CFRR)

Africa

Date: 3–5 November 2011

Location: Nairobi, Kenya

Instructors: Paul Pacter (IASB member and Chairman of the SME Implementation Group) and Michael Wells

Language: English

Sponsoring organisations: Eastern Central and South African Federation of Accountants

(ECSAFA) and the Institute of Certified Public Accountants of Kenya (ICPAK)

The Caribbean

Date: 22–24 November 2011

Location: St Michael, Barbados

Instructors: Paul Pacter and Michael Wells

Language: English

Sponsoring organisations: The Institute of Chartered Accountants of Barbados (ICAB) in collaboration with the Institute of Chartered Accountants of the Caribbean (ICAC)

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Where to obtain **IFRS for SMEs** materials

- [The standard online](#)
(Albanian, Armenian, Chinese (simplified), Czech, English, French, Italian, Macedonian, Polish, Portuguese, Romanian, Russian, Spanish and Turkish)
- [The standard in hard copy](#)
- [Information about the SME Implementation Group](#)
- [Q & As](#)
- [Presentations at train the trainers workshops](#)
- [Training materials in PDF format](#)
- [Board and staff presentations about the **IFRS for SMEs**](#)
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